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PRC STATE COUNCIL BULLETIN

No. 23, 10 Oct 1984

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17 May 1985

CHINA REPORT

POLITICAL, SOCIOLOGICAL AND MILITARY AFFAIRS

PRC STATE COUNCIL BULLETIN, No. 23, 10 Oct 1984

Beijing ZHONGHUA RENMIN GONGHEGUO GUOWUYUAN GONGBAO [PRC STATE COUNCIL BULLETIN] in Chinese, No. 23, 10 Oct 1984.

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NPC STANDING COMMITTEE AUTHORIZES TAX REFORM STEPS

Beijing STATE COUNCIL BULLETIN in Chinese No 23, 10 Oct 84 p 789

[NPC Standing Committee Decision Authorizing the State Council To Reform the Industrial and Commercial Tax System and To Promulgate Trial-Implement Relevant Taxation Regulations (Draft)--Passed on 18 September 1984]

[Text] The Seventh Session of the Sixth NPC Standing Committee has decided, on the basis of the proposal by the State Council, to authorize the State Council, in the course of substituting tax payment for profit delivery and the reform of the industrial and commercial taxation system, to promulgate relevant taxation regulations and to trial-implement these regulations in the form of drafts. It will then revise these regulations on the basis of the experience gained in the trial-implementation and will submit them to the Standing Committee of the NPC for consideration. The promulgation and trial-implementation by the State Council of the above draft taxation regulations will not apply in Chinese-foreign joint ventures or enterprises funded by foreign investment.

CSO: 4005/754

STATE COUNCIL REQUEST FOR TAX REFORM AUTHORIZATION

Beijing STATE COUNCIL BULLETIN in Chinese No 23, 10 Oct 84 p 790

[State Council Proposal Requesting Authorization for the State Council To Reform the Industrial and Commercial Tax System and To Promulgate and Trial-Implement Relevant Taxation Regulations (Draft)]

[Text] To the Standing Committee of the NPC:

In the "Government Work Report" which I gave to the Second Session of the Sixth NPC held in May this year, I pointed out that in order to handle well the financial allocation relationship between the state and the enterprises, to guarantee the stable growth of national income, and to ensure that the enterprises have certain financial guarantees and autonomy in terms of operations management and development, from the fourth quarter of this year we would implement the second step of the reform to substitute tax payment for profit delivery, so as to gradually change from where tax payment and profit delivery exist together to where taxation completely replaces profit delivery. The congress approved this reform. In order to concretely implement this reform, the financial departments have carried out a great amount of investigative and estimating work, widely solicited the ideas of various areas and departments and drawn up the "Methods for Trial-Implementing the Second Step of the Reform to Substitute Tax Payment for Profit Delivery"; six taxation regulations (draft) for product tax, value-added tax, salt tax, business tax, resources tax and an income tax for state-owned enterprises; methods for levying regulatory taxes on state-owned enterprises; and four local taxation regulations (draft) for urban maintenance and construction tax, real estate tax, land-use tax, and vehicle- and boat-use tax. Of these, it is planned to implement the methods for trial-implementing substitution of tax payments for profit delivery, the six tax regulations (draft) including product tax, and the methods for levying regulatory tax as of 1 October 1984. As to the four local taxes, it is intended to temporarily reserve these tax types and implement them in the future. As the urban economic structure is now undergoing reform and the economic situation is developing very quickly, these several tax regulations (draft) must be gradually perfected in practice. Thus, it is requested that you authorize the State Council to promulgate and trial-implement these regulations in the form of drafts. Following a period of implementation, these draft regulations will be

revised in accordance with the experience gained in trial-implementation, after which they will be formally submitted to the NPC Standing Committee for consideration, and to complete the legislative procedures. Chinese-foreign joint ventures and enterprises funded through foreign investment will continue to be subject to the original tax laws and regulations and will not be affected.

Zhao Ziyang
Prime Minister of the State Council

7 September 1984

CSO: 4005/754

TAX PAYMENT SUBSTITUTION, TAX REFORM DISCUSSED

Beijing STATE COUNCIL BULLETIN in Chinese No 23, 10 Oct 84 pp 791-795

[Explanation of Substitution of Tax Payment for Profit Delivery in State-Run Enterprises and of Reform of the Industrial and Commercial Taxation System"-- Presented on 11 September 1984 at the Seventh Session of the Sixth NPC Standing Committee by State Councillor and Minister of Finance Wang Bingqian]

[Text] Chairman, Deputy Chairmen and Committee Members:

I have been entrusted by the State Council to provide to you the following explanation on the substitution of tax payment for profit delivery in state-run enterprises and on the reform of the industrial and commercial taxation system:

I. The Preparatory Process for Carrying Out the Substitution of Tax Payment for Profit Delivery and Reforming the Industrial and Commercial Taxation System

After the Third Plenum of the 11th CPC Central Committee, the State Council, while carrying out economic readjustment work, set about studying the problem of reform of the economic management system. In regard to the substitution of tax payment for profit delivery, it determined that it would implement this in state-run enterprises. That is, the handing over of profits to a higher level would be changed to the payment of taxes, with after-tax profits being left with the enterprise to allocate as it wished. In 1981, on the basis of summing up the experiences of various areas in trial implementation of this system, and after much discussion, the State Council approved the Ministry of Finance's "Plan for Reforming the Industrial and Commercial Tax System." At the same time, in Hubei, Guangxi, Shanghai and Chongqing, the Ministry of Finance carried out expanded experimental work in regard to substituting tax payment for profit delivery in state-run enterprises. In December 1982, the Fifth Session of the Fifth NPC passed Prime Minister Zhao Ziyang's "Report on the Sixth 5-Year Plan." In the report it was pointed out: "In the next 3 years, on the condition that there is no great adjustment of prices, we should reform the taxation system and quicken the pace of substituting tax payment for profit delivery." "This reform needs to be gradually carried out in accordance with different situations. In regard to large and medium-sized state-run enterprises, we must proceed in two steps." On the basis of this spirit, starting in 1983 the first step of the reform to substitute tax payment for profit delivery was implemented in state-run enterprises.

The first step of the reform to substitute tax payment for profit delivery was aimed primarily at collecting income tax from profitmaking state-run enterprises. That is to say, the former system whereby most of an enterprise's profits were handed over, was changed to the system whereby income tax was used as the basis for making payments to the state. Small-scale state-run enterprises, after paying income tax, became solely responsible for their own profits and losses. A few enterprises in which after-tax profits were relatively large, were required to pay a portion as contract fees [chengbao fei 2110 0545 6316]. Except for a rational amount of profit which could be retained, the profits of large and medium-sized state-run enterprises after income tax had been paid, had to be handed over to the state through diversified forms such as progressive contract [dizheng baogan 6677 1073 0545 1626] fees, fixed quota contract [ding'e baogan 1353 7345 0545 1626] fees, fixed percentages [guding bili 0942 1353 3024 0173], and regulatory taxes. Thanks to the attention paid by government organs at all levels, the close coordination of various relevant departments, and the positive efforts of the financial and taxation departments in the last year or so, this work has proceeded quite smoothly and relatively good results have been achieved. Practice has shown that the first step of substituting tax payment for profit delivery is even more advantageous than profit-retention and profit-delivery contract systems. This is mainly because: 1. The relationship between the state and the enterprises in financial distribution has been basically fixed, as the enterprises are required to hand over most of their profits to the state in the form of income tax and this encourages the enterprises to improve their management, and stabilizes state revenue. 2. It has handled quite well the relationship between the state, the enterprises and the workers. In 1983, state-run enterprises made 4.2 billion yuan more profits than in 1982. As a result of the first step of the reform to substitute tax payment for profit delivery, the state obtained 61.8 percent of this amount while the enterprises got 38.2 percent (used as funds for expanding production, workers collective welfare funds and bonuses). This reflected the principle that the state gets the largest share, the enterprises a medium share and the workers a smaller share. 3. Reform has expanded the enterprises' financial power and aroused the enthusiasm of the enterprises and workers. In 1983, those industrial, communications and commercial enterprises which paid taxes instead of turning over their profits, retained a total of 12.1 billion yuan in profits, an increase of 2.7 billion yuan or 28.2 percent over 1982.

However, in the first step of the reform to substitute tax payment for profit delivery, some of the problems have not been solved. The major reason is that we have not completed the substitution of tax payment for profit delivery. The tax categories are relatively limited in number and thus it is difficult to fully bring into play the role of taxation as an economic lever. These problems need to be solved in the second step of the reform to substitute tax payment for profit delivery. In Prime Minister Zhao Ziyang's "Government Work Report" passed by the Second Session of the Sixth NPC in May of this year, it was clearly pointed out: "Starting from the fourth quarter of this year, we will implement the second step of the reform to substitute tax payment for profit delivery so as to move from the situation where payment of taxes and profit delivery exist together to the complete substitution of tax payment for profit delivery."

As to the second step of the reform in substituting tax payment for profit delivery, the State Council had instructed the Ministry of Finance in August last year to do some preparatory work by carrying out investigations and surveys, and formulating plans. The Ministry of Finance conducted general nationwide investigations and surveys, and advanced some plans for selection. It then repeatedly analyzed, compared, studied and discussed them and listened to the views of various districts and departments, and of many enterprises, experts and scholars. After the Second Session of the Sixth NPC this preparatory work for reform was further speeded up. In late June, a national conference on the second step in substituting tax payment for profit delivery was held to discuss and revise the reform plan. It formulated: the "Methods for Trial-Implementing the Second Step of the Reform to Substitute Tax Payment for Profit Delivery in State-Run Enterprises"; six taxation regulations (draft) for a product tax, a value-added tax, a salt tax, a business tax, a resources tax and an income tax for state-run enterprises; methods for levying the regulatory tax on state-run enterprises; and four local taxation regulations (draft) for an urban maintenance and construction tax; a real estate tax, a land-use tax, and a tax on vehicle and boat use. At present, the various regions and departments have strengthened their leadership over this reform work and are centralizing their strength so as to grasp well the various aspects of preparatory work and guarantee the trial-implementation of the second step of the reform to substitute tax payment for profit delivery from 1 October 1984.

II. The Plan for Implementing the Second Step of the Reform To Substitute Tax Payment for Profit Delivery and Reforming the Industrial and Commercial Tax System

The basic pattern for the second step of the reform to substitute tax payment for profit delivery is as follows: Instead of delivering profits to the state, the state-run enterprise will pay taxes to the state in accordance with 11 separate tax types. That is, the situation where tax payment and profit delivery exist together will gradually change to where tax payment will completely replace profit delivery. During this reform, the policy of giving enterprises appropriate encouragement will be adopted. The greater the efforts of an enterprise in improving its management and increasing its revenue, the more money it will have left for its own use after paying taxes. The specific plans can be summarized as follows:

1. Breaking down the current industrial and commercial tax into a product tax, a value-added tax, a salt tax and a business tax, and applying them separately in different enterprises. At the same time, in order to better bring into play the role of taxes in regulating production and consumption, and alleviating pricing contradictions, appropriate readjustment of the tax rates for some products will be effected through the product tax and the value-added tax. The principles for readjustment are as follows: For some products which have a relatively high profit rate due to pricing and other reasons, an appropriately high regulatory tax rate will apply. In general, those light industry products and textile products which are directly related to the lives of the people will not be subject to high regulatory tax rates. In regard to those products which produce small profits and a small number of loss-making products, such as coal, a low regulatory tax rate will apply. The result of the readjustment is that 70 items will have increased tax rates while 60 items will have reduced tax rates.

2. In regard to those mining enterprises which have fine-quality ore bodies, advantageous conditions for extraction and relatively high profits, a resources tax will be levied. This is intended to regulate differences in income between enterprises brought about by differences in natural resources and in conditions for extraction, and promote the rational use of state resources by enterprises. In accordance with current conditions, the tax will first be levied on crude oil, natural gas and coal. The levying of the tax on other mineral products will be deferred.

3. The imposition or revival of four local taxes--urban maintenance and construction tax, real estate tax, land-use tax, and vehicle- and boat-use tax--will be of benefit to the rational and economic use of real estate and land, and will provide an appropriate source of funds for urban maintenance and construction. There was consideration given to implementing these taxes now, but the amount of work required is quite great and thus it is planned to reserve these taxes. After a period of implementing the second step of the reform to substitute tax payment for profit delivery, then we can do further work and gradually implement these taxes.

4. An income tax will be levied on those state-run enterprises which make profits. The profits of state-run enterprises, after they have paid the above-mentioned taxes to the state, will be subject to a certain income tax in accordance with regulations. Large and medium-size enterprises will be subject to a 55 percent flat rate. Small state-run enterprises will be taxed according to a new eight-level progressive tax. The average tax burden of the new eight-level progressive tax rates will be 3 to 5 percent lower than that of the original eight-level progressive tax rates.

5. A regulatory tax will be levied on large and medium-size state-run enterprises. If the profit remaining with a large or medium-size enterprise after it has paid income tax to the state exceeds the rational amount of retained profit of the enterprise prior to the reform, it will be subject to a certain regulatory tax. The tax rates for the regulatory tax will be appraised in the spirit of maintaining a rational profit for the enterprises and will be decided using the 1983 figures as a base and in accordance with the different situations of the enterprises. In order to encourage the enterprises to raise production and economize, and to give the enterprises some reserves, the method of reducing the regulatory tax will be adopted. The rate of reduction will be 70 percent and it will be calculated as a fixed proportion. This will remain unchanged for 7 years. In this way, the more income an enterprise makes, the more advantages it receives.

As the regulatory tax is a transitional measure, following progress in the readjustment of prices and in the reform of the urban economic structure, there may be great changes in the tax, and it would not be appropriate to consider it to be an official tax regulation; thus we have formulated a method for levying this tax.

6. As to the profits of small state-run enterprises, after the enterprise has paid income tax in accordance with the new eight-level progressive tax rates, the remaining profit will generally be left with the enterprise to allocate and use as it likes. Only in the case of enterprises where retained profit is

excessively great will certain contract fees be levied. Small state-run enterprises can be contracted or leased to collectives or individuals for operation. In order to ensure that more small state-run enterprises will gradually be able to become state-owned collectively managed enterprises which pay taxes according to law and have a management system whereby the enterprise is responsible for its own profits and losses, during the second step of the reform to substitute tax payment for profit delivery it is necessary to appropriately expand the standards for differentiating small state-run enterprises.

7. For enterprises which make only small profits or incur losses, the methods of profit and loss contracts and reduced loss sharing [jiankui fencheng 8096 5719 0433 2052] will be continued. A few enterprises which have been approved by the State Council will continue to implement, for a fixed period, contracts for increasing the amount handed over to the state. At the end of the period, they will implement the unified method of substituting tax payment for profit delivery.

8. In the reform of the industrial and commercial tax system, apart from regulating levying methods, taxes will also be applied in collective enterprises and in individual operations.

9. Enterprises funded through foreign investment and Chinese-foreign joint ventures will continue to be taxed in accordance with the original methods.

From the above it can be seen that the second step in the reform of substituting tax payment for profit delivery is a great advance in depth and breadth over the first step. At the same time, seen in terms of building a tax system, this is our nation's first overall reform of the industrial and commercial tax system. Of the 11 taxes drawn up, the business tax and salt tax were former tax types effective in the 1950's. During former simplification of the tax system, these taxes were successively absorbed into the industrial and commercial tax. It is now necessary to break this down and revive the original tax types. Product tax and value-added tax are also parts of the original industrial and commercial tax. The levying of value-added tax on some products is aimed at avoiding duplicate taxation and promoting specialized coordinated production. The resources tax is a new tax intended to regulate disparate incomes and promote the rational use of the state's resources. The income tax for state-run enterprises and the regulatory tax are taxes newly instituted in accordance with the demands of substituting tax payment for profit delivery. The urban maintenance and construction tax, real estate tax, land-use tax and vehicle- and boat-use tax are all, apart from the urban maintenance and construction tax, revived former taxes. Through this reform, the above-mentioned tax types can have their different roles brought into play in the various areas of economic activity, can manifest the relevant economic policies, and will be beneficial to the development of economic construction.

III. The Great Significance of Implementing the Second Step of the Reform to Substitute Tax Payment for Profit Delivery and the Reform of the Industrial and Commercial Tax System

The second step of the reform to substitute tax payment for profit delivery is not only a great reform of the financial and taxation systems, but is also an

important part of the overall reform of the urban economic structure. It is a crucial step in enlivening the economy. If this reform is carried out well and the financial distribution relationship between the state and the enterprises is basically resolved, it will provide conditions and open up paths for the reform of urban economic systems. In specific terms, the main advantages of substituting tax payment for profit delivery are as follows:

1. It is possible to use taxes to fix the financial distribution relationship between the state and the enterprises. After this reform, the enterprises will only have to pay taxes to the state in accordance with the law. After-tax profits will be left with enterprises to use. In this way, we can guarantee the stable growth of the state's revenue which is of benefit to the state in carrying out key construction, and in the planned management of the national economy. It is also of benefit in safeguarding the legitimate rights of the enterprises, thus enabling the enterprises to more fully exercise their decision-making rights.
2. It can better bring into play the role of taxation as an economic lever. During this reform, we have established some new tax types, adjusted some product tax rates and improved levying methods. Thus we can to a certain degree resolve those contradictions which have been produced by the irrationality of prices. This will be of benefit in developing competition between enterprises which have more or less similar conditions. At the same time, it is possible to encourage or restrict the production of certain products through taxation.
3. It can give the enterprises added vigor and motivation. This reform, in the situation where state finances are still in a difficult state, adopts various measures to expand the financial autonomy of the enterprises. For example, there has been a relaxation in the policy of reduced regulatory tax for large and medium-size enterprises, giving the enterprises reserve strength. The standards of division for small state-run enterprises have been relaxed, resulting in an increase in the number of small-scale enterprises enjoying preferential treatment. A new eight-level progressive income tax has been implemented, reducing the tax burden, and so on. We estimate that through the above-mentioned measures for expanding financial autonomy, the benefits obtained by enterprises will increase by an average annual amount of over 3 billion yuan for the next 7 years. This will have great significance in motivating the enthusiasm of the enterprise and the workers, and in further enlivening the economy. At the same time, it will strengthen the enterprises' responsibility in regard to profits and losses and provide greater motivation for the enterprise. After the reform, if the enterprises function well, they will be able to develop. If they do not function well, then they will be defeated in competition. We are thus able to use economic methods in rewarding the diligent and penalizing the lazy so as to encourage and urge on the enterprises.
4. It can create conditions for reforming the financial management system. After the second step of the reform to substitute tax payment for profit delivery, it will be possible to completely differentiate the scope of financial income of the central and local authorities on the basis of taxation, and reform the

financial management system. Thus, it will be possible to resolve quite rationally the financial distribution relationship between the state and the enterprises and between the central authorities and the local authorities. This will be of benefit in getting rid of "departmental" and "regional" interference, in achieving a division between administrative and enterprise functions, in streamlining administrative procedures and in delegating power to lower levels.

From this we can see that in resolving the financial distribution relationship between the state and the enterprises, substituting tax payment for profit delivery is the direction of reform. If this reform is carried out well, it will give the enterprises a big boost in becoming independent operating units which are solely responsible for their own profits and losses. This will be beneficial to getting rid of the malady where enterprises eat from the "big pot" of the state and will promote the development of the national economy. Of course, because the second step of the reform to substitute tax payment for profit delivery is a new thing, in the process of trial-implementing it in an overall way, especially as it is being implemented at the same time as planning, pricing and wage reforms, it must be gradually perfected.

As the reform of the urban economic structure is being carried out at present, and there are rapid changes taking place in the economic situation, all of the taxation regulations (draft) will need to be strengthened and perfected. It is requested that the NPC Standing Committee authorize the State Council to promulgate and trial-implement the draft regulations. After a period of implementation, we will sum up our experiences, revise the regulations and then submit them to the NPC or the NPC Standing Committee for examination, and approval to be enacted as tax laws.

My explanation concludes here. Please discuss it.

CSO: 4005/754

STATE COUNCIL CIRCULAR ON SECOND PHASE TAX REPORT

Beijing STATE COUNCIL BULLETIN in Chinese No 23, 10 Oct 84 p 796

[State Council Circular on the Approval and Circulation of Finance Ministry Report on the Second Phase of Substitution of Tax Payment for Profit Delivery in State-run Enterprises (18 September 1984)]

(Guofa [0948 4099] (1984) No 124)

[Text] The State Council has approved the Finance Ministry's "Report on the Second-Phase Reform of the State-Run Enterprises in Substituting Tax Payment for Profit Delivery" and "Provisional Rules for the Second Phase of Substitution of Tax Payment for Profit Delivery in State-Run Enterprises." They are now distributed to you for implementation, starting from 1 October.

The second-phase reform in substituting tax payment for profit delivery represents an important component of the reform of the urban economic structure. Through this second-phase reform, the relationship of distribution between the state and the enterprises will be fixed by way of taxation, the problem of the enterprises' practice of "eating from the big pot" of the state will be relatively satisfactorily solved, and necessary conditions for the enterprises to realize their own decisionmaking power will be created, so that the enterprises will gradually attain the goal of "independent operation and assuming sole responsibility for profits or losses" and the enthusiasm of the enterprises and their staff and workers will be mobilized. It is expected that this will certainly be highly effective in straightening things out in the economy, in enlivening the economy, in giving impetus to the reform of the urban economic structure, and enhancing economic results in society.

The second-phase reform in substituting tax payment for profit delivery will cover a wide area and call for very close adherence to the policy. All localities and departments must strengthen leadership and establish offices comprising crack forces so as to conscientiously do a good job. Leaders at all levels must conduct in-depth investigation and study and must promptly get to know, and provide solutions for, new situations, circumstances and new problems arising in the course of implementing this reform. Serious problems must be immediately reported to higher levels and the departments concerned must pay attention to studying ways to solve them. Readjusting tax rates and instituting new taxes represent a shift from profit delivery to tax payment and do not involve any price change. All enterprises must strive to tap their own potentials to increase output and income. They must never raise prices directly or indirectly on the pretext of increased taxation.

MINISTRY REPORT ON SECOND PHASE OF TAX SUBSTITUTION

Beijing STATE COUNCIL BULLETIN in Chinese No 23, 10 Oct 84 pp 796-798

[Finance Ministry Report on the Second Phase of Substitution of Tax Payment for Profit Delivery in State-Run Enterprises (10 August 1984)]

[Text] In accordance with the State Council's resolution, the second-phase reform in substituting tax payment for profit delivery will be implemented on a nationwide scale and on a trial basis, beginning 1 October. At the national work conference on the second-phase substitution of tax payment for profit delivery, convened at the end of June, the "Provisional Rules for the Second Phase of Substitution of Tax Payment for Profit Delivery in State-Run Enterprises," six sets of (draft) regulations regarding the product tax, the value-added tax, the salt tax, the business operation tax, the resource tax, and the income tax on state-run enterprises, as well as rules for the collection of the regulatory tax on state-run enterprises, were discussed in detail and amended. The provisional rules are now reported for examination and approval, and the following is a report on several major questions:

1. The imposition of local taxes is suspended for the time being. In accordance with the gist of the instructions of the leading comrades of the State Council, the imposition of four local taxes is suspended; they are the urban area maintenance and construction tax, the house property tax, the land-use tax, and the vehicle- and boat-use tax. However, these categories of taxes are kept valid. When to impose these taxes will be dealt with in a separate report to be submitted for approval. Aside from some individual localities which had started to levy these taxes in 1983, no other localities are permitted to impose them, or to impose them under the disguise of fee collections, before any promulgation of permission for imposition.
2. There must be different treatment, corresponding to different circumstances, for those enterprises which have been practicing methods such as assuming responsibility for task completion with the delivery of progressively increased amounts of profits. On 13 July this year, the General Office of the State Council issued the "Circular on Not Granting Any Further Approvals for Enterprises to Practice Methods Such as Assuming Responsibility for Task Completion With the Delivery of Progressively Increased Amounts of Profits." All localities and departments should act strictly according to various regulations in the circular.

3. Leadership over this reform must be strengthened. The second-phase reform in substituting tax payment for profit delivery covers a wide area and calls for very close adherence to the policy. All localities and departments must strengthen leadership. It is suggested that governments at various levels should each have one leading comrade in charge of this work. The great significance of the second-phase reform in substituting tax payment for profit delivery must be extensively made known through propaganda. Ideology must be further unified and understanding must be enhanced. All localities and departments must establish offices for substituting tax payment for profit delivery and transfer some competent personnel from their finance and tax offices to it to handle the daily routine of this work. Each locality or department must formulate its own specific scheme for implementation as soon as possible. Regulation tax rates for enterprises must be reported to the Finance Ministry for approval before the end of November this year.

4. The state's price policies must be rigorously implemented and price fluctuations must be prevented. In this second-phase reform in substituting tax payment for profit delivery, the tax rates on some products will be readjusted and some new taxes will be imposed in order to resolve problems in the relationship of distribution between the state and the enterprises. It must be clearly explained to the enterprises that this represents a shift from profit delivery to tax payment which does not involve any price changes. No enterprise is permitted to use increased taxation by the state as an excuse to act on its own to raise prices, lower the quality of its products, or sell at a quantity below what the price calls for in an effort to disguise prices, thereby harming the interests of the masses.

5. The enterprises must be helped to enforce the economic responsibility system within the enterprises themselves. Whether the goal of the second-phase reform in substituting tax payment for profit delivery can be attained depends on whether the enterprises can, after solving the problems in the relationship of distribution between the state and the enterprises, conscientiously enforce the economic responsibility system within themselves, mobilize the enthusiasm of the vast numbers of staff members and workers, and solve the problem of the practice of the staff and workers of "eating from the same big pot" of the enterprises. It is hoped that at all levels, the economic commissions, departments in charge of enterprises, and finance departments can, in conjunction with enterprise consolidation, urge the enterprises to enforce various forms of economic responsibility systems and to work hard to improve economic results. The enterprises must be encouraged to tap their own potentials, to increase output and income, to develop themselves, and to make great contributions to the state.

6. Rigorous supervision over financial and taxation work must be carried out. Through this reform, the enterprises' decisionmaking power will be further increased and unnecessary administrative interventions in the enterprises by the state can be greatly reduced. After paying taxes according to law, the enterprises can control and use their profits. However, it must not be thought

that with the substitution of tax payment for profit delivery, it will no longer be necessary for the state to exercise financial supervision. Financial and taxation agencies at all levels should, according to the "Regulation of Cost Management in State-Run Enterprises" and the financial accounting system for state-run enterprises, exercise rigorous inspection and supervision of the enterprises with regard to the range of cost appropriation and cost expenditure and the calculation of cost and profit; they must guard against any acts detrimental to the state's interests, such as tax evasion or coverups.

Please examine and comment on this report. If there is nothing wrong, please approve it and also the "Provisional Rules for the Second Phase of Substitution of Tax Payment for Profit Delivery in State-Run Enterprises" and distribute them to various localities and departments for trial implementation beginning 1 October 1984.

CSO: 4005/754

PROVISIONAL TAX SUBSTITUTION RULES FOR STATE-RUN ENTERPRISES

Beijing STATE COUNCIL BULLETIN in Chinese No 23, 10 Oct 84 pp 798-803

[Provisional Rules for the Second Phase of Substitution of Tax Payment for Profit Delivery in State-Run Enterprises]

[Text] These rules have been formulated so that the reform of the urban economic structure can be promoted, the economy can be further enlivened, the relationship of distribution between the state and the enterprises can be readjusted and perfected, a steady growth of the state's fiscal revenue can be ensured, the enterprises can have a definite amount of guaranteed financial strength and a definite amount of decisionmaking power in operation, management and development, and the enthusiasm of the enterprises and their staff and workers can be mobilized.

I. In the second-phase substitution of tax payment for profit delivery, the existing industrial and commercial tax is divided, in the light of the different categories of payers of taxes, into the product tax, the value-added tax, the salt tax, and the business operation tax. The income tax and the regulatory tax, introduced during the first-phase substitution of tax payment for profit delivery, have been improved. The resource tax, the urban area maintenance and construction tax, the house property tax, the land-use tax, and the vehicle- and boat-use tax have been introduced. The state-run enterprises should follow the relevant (draft) tax regulations and tax collection rules promulgated by the State Council.

1. Product tax: Those state-run enterprises which produce products on which the product tax is levied should, after selling such products, pay an amount of product tax calculated according to regulations.

Starting from 1 October 1984, for any additional sales revenue attributable to increases in the prices of cigarettes, a product tax must be paid according to regulations. At the same time, the subsidy for meeting increases in tobacco prices and the subsidy on famous brands of cigarettes granted independently of prices will be abolished.

2. Value-added tax: Those state-run enterprises producing products on which the value-added tax is levied should, after selling such products, pay an amount of value-added tax calculated according to regulations. The appreciation tax makes it possible to avoid double taxation and makes the development of cooperation between specialized units to become more compatible with the need for readjusting the structure of production.

The handling of those items that should be deducted in the calculation of the amount of value-added tax payable should accord with the state's unified regulations. The range of such items must not be expanded or reduced at will.

3. Salt tax: Those enterprises which produce, deal in, or import salt should, in selling or importing salt, pay an amount of salt tax calculated according to regulations.

4. Business operation tax: Those state-run enterprises in the fields of commerce, supply and marketing of goods and materials, communications and transportation, construction and fitting, finance and insurance, postal and telecommunications services, public utilities, publication, entertainment, processing and repairing, and other services, should, after selling commodities or obtaining business receipts, pay an amount of business-operation tax calculated according to regulations.

In the link of wholesaling, the business-operation tax will first be levied on state-run commercial enterprises in the petroleum, metalware, communications and telecommunications, and chemical products trades. In the wholesaling link, the collection of the business-operation tax will be suspended in the case of state-run commercial enterprises in other trades, in the case of goods and materials handling, supply and marketing, medicines, and cultural and educational goods sectors, and in the case of supply and marketing cooperatives run by county authorities or higher authorities.

The collection of the business-operation tax will be suspended with regard to the receipts of state-run construction and fitting enterprises from the contractual undertaking of projects.

5. Resource tax: For those state-run enterprises which excavate resources, such as crude oil, natural gas, coal, metallic minerals, and other nonmetallic minerals, they should, after the selling of the taxable products, pay an amount of resource tax calculated according to regulations.

At present, the resource tax is first levied on crude oil, natural gas, and coal; in other cases, tax collection will be suspended.

In the case of mining enterprises (including small coalpits) which rationally excavate resources and whose development should be supported by the state, tax reductions can be granted.

6. Urban area maintenance and construction tax: All state enterprises paying the product tax, the value-added tax, or the business-operation tax, should pay an amount of urban area maintenance and construction tax calculated according to regulations.

7. House property tax: Those state enterprises owning house property should pay an amount of house property tax calculated according to regulations.

8. Land-use tax: Those state-run enterprises using state-owned land should pay an amount of land-use tax calculated according to regulations.

9. Vehicle- and boat-use tax: Those state-run enterprises owning vehicles and boats in operation should pay an amount of vehicle- and boat-use tax calculated according to regulations.

10. Income tax: Large and medium-sized state-run enterprises that make a profit should pay income tax at a fixed rate of 55 percent. Small state-run enterprises that make a profit should pay income tax according to the new eight-grade progressive rate for above-norm income.

11. Regulation tax: After paying income tax, large and medium-sized enterprises that make a profit should pay an amount of regulatory tax calculated according to stipulated rates.

Collection of the above-mentioned urban area maintenance and construction tax, house property tax, land-use tax, and vehicle- and boat-use tax is suspended, though these taxes are kept valid. On the other hand, the slaughter tax, special tax on fuel oils, agriculture (and animal husbandry) tax, the construction tax and the bonus tax will continue to be levied on state-run enterprises according to original regulations.

II. In determining the regulation tax rate, the realized profit achieved by an enterprise in 1983 is taken as the base figure; after adjustments are made for increases or decreases in the profit due to changes in the rates of the product tax, the value-added tax, or the business-operation tax, or due to the imposition of the resource tax, it is taken as the appraised base-period profit. After a 55 percent income tax and a reasonable retained proportion of the profit for 1983 have been deducted from this base-period profit, the ratio of this remainder to the base-period profit will be the appraised regulatory tax rate.

In the determination of the regulatory tax rate for state-run cigarette-making enterprises, to an enterprise's realized profit for 1983 should be added the additional receipts arising from increases in cigarette prices, and from this realized profit should be deducted the product tax on additional receipts arising from increases in cigarette prices, subsidies for meeting increases in tobacco prices, and subsidies for famous brands of cigarettes granted independently of prices; the remainder will be the appraised base-period profit.

In the determination of the regulatory tax rate for any enterprise carrying out joint operation with other units, the appraised base-period profit should also be increased by the profit received according to regulations from those joint-operation units, or decreased by the profit distributed to those joint-operation units.

For those large and medium-sized enterprises whose appraised base-period profit less the 55 percent income tax falls short of the reasonable level of retained profit for 1983, the regulatory tax will not be levied; moreover, over a specified time period, the income tax will be reduced by a certain amount if approved.

The regulatory tax rates for enterprises and the above-mentioned income tax reductions will be determined by the financial and taxation departments after consultation with departments in charge of enterprises. The determination of

regulatory tax rates and income tax reductions by the financial and taxation departments of various provinces, autonomous regions, and municipalities directly under the central government must be reported to the Ministry of Finance for approval.

For that part of an enterprise's current-year profit in excess of the appraised base-period profit, the regulatory tax will be reduced 70 percent. For the sake of calculation, once the proportion of excess profit is fixed, it will remain unchanged for 7 years. For goods and materials handling, supply and marketing, finance, and insurance enterprises, the rule of a reduced 70 percent regulatory tax rate will not apply.

Appraised regulatory tax rates will be effective from 1985 onward.

III. After paying income tax according to the new eight-grade progressive tax rates, small state-run enterprises that make a profit must generally assume sole responsibility for profits or losses, and the state will no longer allocate funds to them. However, in the determination of base figures, the state may collect a certain amount of contracting fees from any enterprise having a relatively large after-tax profit; specific rules will be determined by the people's governments of various provinces, autonomous regions, and municipalities directly under the central government. If the after-tax profit falls short of the reasonable level of retained profit for 1983, then, over a certain time period, the income tax will be reduced by a certain amount if approval is granted.

For Beijing, Tianjin and Shanghai, a small state-run industrial or communications enterprise is one with fixed assets originally valued at not more than 4 million yuan and with an annual profit of not more than 400,000 yuan; both conditions must be satisfied. In other localities, small state-run industrial or communications enterprises (including urban public utility enterprises, industrial enterprises run by the commercial sector, industrial enterprises run by the grain-producing sector, enterprises of the feed industry, and storage and transportation enterprises) are those with fixed assets originally valued at not more than 3 million yuan and with an annual profit of not more than 300,000 yuan; both conditions must be satisfied.

For Beijing, Tianjin and Shanghai, a small state-run commercial retail enterprise is one with an annual profit of not more than 200,000 yuan and with not more than 60 staff members and workers; for the capitals of various provinces and autonomous regions and for Chongqing, it is one with an annual profit of not more than 150,000 yuan and with not more than 60 staff members and workers; and in other cities, it is one with an annual profit of not more than 80,000 yuan and with not more than 30 staff members and workers; in this kind of classification, a shop which is a natural establishment practicing independent account is taken as a unit. The criterion for defining a small commercial retail enterprise is that the condition concerning the amount of profit must be satisfied; whether the condition concerning the number of staff members and workers must also be satisfied is to be independently determined by the people's governments of various provinces, autonomous regions, and municipalities directly under the central government.

Within the limits prescribed by the above-mentioned criteria, the people's governments of various provinces, autonomous regions, and municipalities directly under the central government can make appropriate readjustments in the light of their own actual local conditions. For individual cities, if the criteria are to be relaxed, this must be reported to the Ministry of Finance for approval.

For those means-of-production service companies or retail outlets, coal companies, and scrap metal retrieval companies, which are under goods and materials departments, and for goods and materials enterprises run by counties, small goods and materials enterprises can be defined by taking as reference the criteria adopted for other small commercial retail enterprises in the cities.

All agricultural and animal husbandry enterprises run by the commercial sector are treated as small enterprises.

Commercial wholesale enterprises, trading centers, trading warehouses, overseas remittance shops, friendship stores, petroleum product shops (including gas stations), companies furnishing supplies to foreign ships, self-service shops, food purchasing and marketing centers, goods and materials enterprises (excluding those goods and materials enterprises classified above as small enterprises), and supply and marketing enterprises, are as a rule treated as large or medium-sized enterprises, regardless of their profits, fixed assets and number of staff members and workers.

For cultural and educational goods enterprises, small enterprises can be defined by taking as reference the criteria for small industrial and communications enterprises and the criteria for small commercial retail enterprises.

IV. All small enterprises are categorized according to the relevant 1983 data. However, realized profits for 1983 should be readjusted to take into account changes in profits due to changes in tax rates or the imposition of new taxes. The above-mentioned criteria for defining small enterprises and the new eight-grade progressive rates of income tax will become effective from 1985 onward. Once an enterprise is classified as a small one, this classification will remain unchanged for 7 years.

V. For military-industry enterprises, postal and telecommunications enterprises, civil aviation enterprises, foreign trade enterprises, agricultural and animal husbandry enterprises, reform-through-labor enterprises, and a minority of authorized enterprises practicing on a trial basis methods such as assuming responsibility for task completion with the delivery of progressively increasing amounts of profits, they for the time being need not pay the income tax and regulation tax according to these rules, but should pay other taxes according to the relevant regulations. Their delivery of profits to higher authorities, their payment of charges for using capital funds to higher authorities, and their appropriation and spending of staff and worker welfare funds and bonuses, will continue to be governed by the old regulations.

VI. The granting of subsidies, tax reductions, and tax exemptions for those enterprises incurring deficits or earning only a meager profit will be governed by the following rules:

1. All deficits permitted by state policies will be dealt with by the method of planned subsidizing: no subsidy will be granted for that part of the deficit in excess of the permitted deficit, or if the deficit is less than the permitted amount, part of the unused subsidy will be given to the enterprise concerned. The amount of subsidy or the proportion of unused subsidy granted to an enterprise whose deficit is less than the permitted amount may be determined annually or may remain unchanged for 3 years once it is determined.

2. If a deficit is due to poor operation and management, the department in charge of the enterprise concerned will enjoin the enterprise to turn the deficit into a profit within a given time period, during which the financial department concerned will appropriately determine the amount of subsidy for meeting the deficit, with no subsidy for that part of the deficit in excess of the permitted deficit, or with part of the unused subsidy given to the enterprise concerned if the deficit is less than the permitted amount; after that given time period, no subsidy will be granted. If the deficit is turned into a profit at the end of the period, profit delivery will be substituted by tax payment according to these rules.

If a deficit is turned into a profit before the end of that given time period, the subsidy for the current year for meeting the deficit will be granted as planned and the profit will be retained by the enterprise concerned; the achievement of realized profit in the following year will be regarded as equivalent to a reduction of deficit and a proportion of the unused subsidy will be given to the enterprise.

3. For those enterprises originally making a profit in 1983, if in 1983 the readjustment and raising of tax rates and the imposition of new taxes caused their profits to give way to deficits or caused their profits to fall short of the reasonable levels of retained profits for 1983, then reductions of the product tax, value-added tax, and business-operation tax over a 3-year period may be granted. These enterprises can be treated as enterprises earning only a meager profit, which need not pay the income tax and the regulatory tax. In actual implementation, if the realized profit exceeds the reasonable level of retained profit, the state and the enterprise concerned can share the profit according to a ratio which will remain unchanged for 3 years once it is determined.

The finance and taxation departments, after consulting the relevant departments in charge of the enterprises, will determine the reasonable levels of retained profits and the amounts of reductions of various taxes, as mentioned above, for the enterprises for 1983. The determination of the amounts of tax reductions for enterprises by the finance and taxation departments of various provinces, autonomous regions, and municipalities directly under the central government must be reported to the Ministry of Finance for approval.

VII. Methods for the appropriation and spending of staff and worker welfare funds and bonuses by the state-run enterprises must be implemented according to the "Regulations for Cost Management in State-Run Enterprises" and the detailed rules for implementation contained in these regulations. The piece-rate above-norm wages of construction workers, coalminers working in underground pits, and stevedores working in ports should be included in costs.

VIII. If a state-run enterprise applies for a loan for undertaking a technological measure, 10 to 30 percent of the funds needed for the project in question must be made available by the enterprise itself through using its special funds. In repaying a loan for undertaking a technological measure or a loan for a capital construction project in rebuilding or expansion work, an enterprise can, after obtaining approval from the financial departments concerned, use the additional profit, which arises from the loan-financed project after the completed project has gone into operation, for loan repayment before paying the income tax.

When an enterprise uses its profit to repay a loan, as mentioned above, it can draw money from the staff and worker welfare fund and the fund for awards for staff and workers.

In the calculation of the additional profits, in order that there can be a unified basis for calculation, that part of the profit used in 1983 for repaying the above-mentioned category of loans and the profit retained by an enterprise in 1983 for undertaking some single project can in principle be deducted from the base-period profit. The specific amount that can be deducted must be approved by the relevant financial departments.

IX. With the implementation of the second-phase substitution of tax payment for profit delivery, the base-period profit and the regulatory tax rate will as a rule not be readjusted even if there is a change in prices or tax rates, unless this change is rather great and the State Council approves, as a special case, an appropriate readjustment of the base-period profit or the regulatory tax rate. Any such readjustment must be reported for approval according to the second regulation in these rules.

When a new workshop of an enterprise goes into operation, or when some technological transformation of the entire enterprise is completed so that production capacity increases, this must be reported to the department in charge and the financial department at the same level for a corresponding readjustment of the appraised base-period profit. If the project concerned is one financed by a loan, readjustment can be made after the loan has been fully repaid.

X. An enterprise's retained profit should be rationally distributed and used. A fund for the trial manufacture of new products, a production development fund, a reserve fund, a staff and worker welfare fund, and a fund for awards for staff and workers, must be set up. The ratio of the size of the fund for awards for staff and workers to the retained profit of the enterprise must be determined by the Ministry of Finance after consultation with various provinces, autonomous regions, and municipalities directly under the central government and with the departments in charge of enterprises; the fixing of this ratio for enterprises under the authorities of various localities or under various departments involves level-by-level determination. Generally, 50 percent of the retained portion of an enterprise's additional profit should be used for developing production, 20 percent for the collective welfare of the staff and workers, and 30 percent for giving awards to staff and workers.

XI. Before the promulgation of these rules, some enterprises had been practicing methods, such as assuming responsibility for task completion with the delivery of progressively increasing amounts of profits; in the light of different circumstances, they should be dealt with according to the following regulations:

1. Some enterprises have been practicing on a trial basis methods, such as assuming responsibility for task completion with the delivery of progressively increasing amounts of profits, with the approval of the State Council, the Ministry of Finance, or the State Economic Commission; if the experimentation period for such an enterprise has expired, it should change over to implementing these rules; if the experimentation period has not expired, it should continue to practice the method it has been using, but when the experimentation period expires, it must begin to implement these rules.

2. Various localities must straighten out those enterprises which have been authorized by the people's governments of various provinces, autonomous regions, and municipalities directly under the central government to practice on a trial basis methods such as assuming responsibility for task completion with the delivery of progressively increasing amounts of profits. When the experimentation period for an enterprise expires, the enterprise should change over to implementing these rules. If the experimentation period for an enterprise has not expired, if the enterprise is doing a relatively good job, and if the relationship of distribution between the state and the enterprise is relatively rational, the enterprise should change over to implementing these rules when the experimentation period expires, but this shift must be reported afterward to the Ministry of Finance and the State Economic Commission for approval. In cases where distribution is not rational and various parties hold different views, the enterprise concerned should change over to implementing these rules as soon as possible.

3. In cases where some provincial administrative office or the people's governments of some municipalities or counties authorized on their own the practicing of methods such as assuming responsibility for task completion with the delivery of progressively increasing amounts of profits, the enterprises concerned should resolutely change over to implementing these rules, substituting tax payment for profit delivery.

4. For those enterprises which have been authorized to continue to practice methods such as assuming responsibility for task completion with the delivery of progressively increasing amounts of profits, they should, starting from the fourth quarter of this year, pay the product tax, the value-added tax, the business-operation tax, and the resource tax according to the new (draft) tax regulations.

XII. With the practicing of the second-phase substitution of tax payment for profit delivery, the departments in charge of enterprises can continue to appropriately pool part of the retained profits for use in key technological transformation projects and the construction of commercial networks, points and facilities, but these funds must not be used to meet the departments' own expenditures. The retained profits pooled by the departments in charge of enterprises can be collected from the enterprises and can also be made available by reimbursement from the treasury.

XIII. According to Regulation 35 of the "PRC Law on Regional National Autonomy," in implementing the state's taxation laws, a national autonomy locality can, with authority from the people's government of the province or autonomous region concerned, grant tax reductions or tax exemption in respect of certain categories of local fiscal revenue involving a need for giving special attention or encouragement with regard to taxation, except in cases of tax reduction or tax exemption where centralized state examination and approval are necessary.

For Xizang Autonomous Region, the manner of implementing these rules is to be determined by the people's government of the autonomous region.

XIV. The specific regulations governing the trial implementation of these rules will be formulated by the Ministry of Finance.

XV. The trial implementation of these rules will start from 1 October 1984. Where conflicts arise between relevant regulations promulgated in the past and these rules, the latter will prevail.

CSO: 4005/754

STATE COUNCIL CIRCULAR ON NEW ELECTRONICS INDUSTRY LEADERSHIP GROUP

Beijing STATE COUNCIL BULLETIN in Chinese No 23, 10 Oct 84 p 804

[State Council Circular on the Establishment of the Leadership Group for the Promotion of the Electronics Industry (15 September 1984)]

(Guofa (1984) No 121)

[Text] For the sake of greeting the new global technological revolution and speeding up our country's four modernizations, we must develop new industries, with special emphasis on key ones. Among many modern new industries, the information industry represents the most important and most active core factor whose influence is most extensive. We must gradually equip our country's information industry and make various means of information technology serve the traditional industries. Therefore, we should allow the electronics industry to occupy a very important position in our national economic development and we must resolutely develop this industry. This is an important matter and an arduous task.

In order to strengthen centralized leadership over the development of the electronics and information industry and to effectively promote this work, the State Council has resolved to replace the Leadership Group Under the State Council in Charge of Computers and Large Integrated Circuits by a Leadership Group Under the State Council for the Promotion of the Electronics Industry. The composition of this group is as follows:

Group Leader: Li Peng [2621 7720]

Deputy Group Leaders: Lu Dong [0712 2639], Song Jian [1345 0256], Zhao Dongwan [6392 2639 1354], Nie Li [5119 0500], Jiang Zemin [3068 3419 3046]

Members: Yan Dongsheng [0917 2639 3932], Yang Jun [2799 3182], Wei Mingyi [7614 7686 0001], Huang Xinbai [7806 6580 4101], Shen Liechu [3089 3525 0443], Zhu Gaofeng [2612 7559 1496], Zhang Xintai [1728 6580 3141], Zhao Qingfu [6392 1987 1133], Zhu Tianshun [2612 3944 7311].

This leadership group is a leadership body through which the State Council promotes the electronics and information industry. Its main tasks are to strengthen centralized leadership over the electronics and information industry, to formulate strategies, guiding principles, policies, and major measures related to its development, to examine and approve key developmental plans and to supervise

the implementation of these plans, to bring the principal forces undertaking scientific research and production in the electronics industry onto the track of cooperation among specialized units, to examine and approve major projects that should be imported, and to coordinate various departments and localities with respect to major problems, arising in the course of developing the electronics and information industry, concerning scientific research and the building of major projects.

The leadership group will organize various departments and commissions concerned to further the progress of various tasks in promoting the electronics and information industry, with mutual coordination and division of labor among themselves. Some subgroups in charge of certain specialties can be set up by the Leadership Group for the Promotion of the Electronics Industry, so that the development of key projects and products can be strengthened and impetus can thus be given to the development of the entire industry.

A crack bureau under the Leadership Group handles daily routine. Comrade Li Xianglin [2621 4382 2651] is the Bureau Chief and Comrade Li Zhaoji [2621 0340 0679] is the Bureau Consultant. There are also some Deputy Bureau Chiefs as well as some staff members in charge of specific duties.

CSO: 4005/754

NPC DECISION TO PARTICIPATE IN ANTIBIOLOGICAL WEAPONS TREATY

Beijing STATE COUNCIL BULLETIN in Chinese No 23, 10 Oct 84 p 805

[NPC Standing Committee Decision on China's Participation in the Treaty Against Biological Weapons (promulgated 20 September 1984)]

[Text] The Seventh Session of the Sixth National People's Congress Standing Committee decided that the People's Republic of China would participate in the "Treaty on the Banning of the Development, Production, and Storage of Bacteriological (Biological) and Toxic Weapons and on the Destruction of Such Weapons" signed on 10 April 1972.

CSO: 4005/754

STATE COUNCIL PROPOSAL ON JOINING ANTIBIOLOGICAL WEAPONS TREATY

Beijing STATE COUNCIL BULLETIN in Chinese No 23, 10 Oct 84 pp 805-806

[State Council Proposal on China's Participation in the "Treaty on the Banning of the Development, Production, and Storage of Bacteriological (Biological) and Toxic Weapons and on the Destruction of Such Weapons"]

[Text] Dear NPC Standing Committee Members:

It has long been established in the world that biological and chemical weapons are "abominable," "inhumane" and that such weapons should be banned. After World War II, the United States used bacteriological weapons during its invasion of Korea and used, to a great degree, chemical weapons in Indochina. In recent years, the Soviet Union and Vietnam have been accused of using chemical weapons in places such as Afghanistan, Kampuchea and Laos. The world has shown grave concern over the use of biological and chemical weapons. That is also why the banning of such weapons has all along been one of the major issues in disarmament talks. On 10 April 1972 the majority of UN member states signed the "Treaty on the Banning of the Development, Production, and Storage of Bacteriological (Biological) and Toxic Weapons and on the Destruction of Such Weapons" (hereafter referred to as the "Treaty on the Banning of Biological Weapons"). Talks on the banning of chemical weapons are still under way.

The "Treaty on the Banning of Biological Weapons" took effect on 26 March 1975. Up till now, 96 nations have approved or joined the treaty, which aims at banning the development, production, storage and acquisition of biological preparations, toxins and weapons using them except for peaceful purposes and to destroy such preparations, toxins and weapons using them.

The treaty has served, to a considerable extent, to pin down hegemonious states which are in possession of chemical weapons and it is favorable to developing countries, including China. The State Council, therefore, believes that it is appropriate and necessary for our state to join the "Treaty on the Banning of Biological Weapons."

Since Taiwan usurped the name of China to approve the treaty, it is necessary for us to declare in joining the treaty that the signing and approval of the Taiwan authorities are illegal and null and void.

A Chinese version of the "Treaty on the Banning of Biological Weapons" is enclosed for your consideration and approval.

Zhao Ziyang, Premier

STATE COUNCIL APPROVES SHANGHAI EXPANSION REQUEST

Beijing STATE COUNCIL BULLETIN in Chinese No 23, 10 Oct 84 p 813

[State Council Approval of Shanghai Municipal People's Government Request To Expand the Municipality (28 July 1984)]

Guo Hanzi [0948 0428 1316] (1984) No 118

[Text] We refer to your "Request to Expand the Administrative Divisions of the Municipality" dated 18 May 1984 and agree to include the 116 production brigades from Yangjing Town, Changqiao Township, Yangjing Township, Yanqiao Township, Liuli Township, and Yangsi Township in Chuansha County, the 177 production brigades from Caohejing Town, Longhua Town, Beixinjing Town, Longhua Township, Meilong Township, Hongqiao Township, Xinjing Township in Shanghai County, the 47 production brigades from Zhenru Town, Changzheng Township and Taopu Township in Jiading County, the 129 production brigades from Jiangwan Town, Wujiaochang Town, Pengpu Township, Miaoxing Township, Jiangwan Township, and Wujiaochang Township in Baoshan County in your municipality.

CSO: 4005/754

END